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A US PERSPECTIVE ON APPROACHES TO MARKET ACCESS

Greg Frazier
Former Chief Agriculture Negotiator,
Office of the United States Trade Representative

Whether developing a market access strategy or formulating a negotiating plan for further global agricultural trade reform, US agricultural trade policy needs a new paradigm. The tenets of the past served American agriculture well - opening of new markets and leading multilateral negotiation that made significant strides in global trade reform.

But the world today is a different place, the agricultural trade landscape looks different than it did even as recently as the launch of the Uruguay Round. However, US policy has evolved little. Notwithstanding the strong points of US policy, that will help lead to further those reforms, American agriculture needs more than simply Uruguay Round II.

The new paradigm must be built on several of the 21st Century's new realities. First, trade, including agricultural trade, plays a central role in defining the post-Cold War era, in particular in the way the US conducts its world affairs. Second, the world view that shaped US negotiations in the Uruguay Round and since hardly accounts for the opportunities for American agriculture in the future and, especially, the new dynamics of whatever new round of multilateral trade negotiations lies ahead. Third, US agricultural trade policy has yet to account fully for many of the emerging trends of the new century.

MARKET ACCESS OR TRADE REFORM?

Although market access and trade liberalization have been the two pillars upon which US agricultural trade policy has been built, they are not the same. Their objectives may often coincide, overlap, and complement one another but so too can they conflict with one another, presenting the policy maker and the negotiator tough choices. So whether policy dictates a bilateral, regional, or global approach to market access, it must first reconcile that potential, and fundamental, conflict.

A trade negotiator must know many things, but all are secondary to knowing one thing and consistently striving towards it: The negotiator, and by extension the policy, must know what he or she wants. It sounds simple, obvious; but unless the negotiator, and by extension his or her government, firmly states and adheres to a clear objective, the negotiator, and thus the policy, is in peril.

For example, the US committed in the Uruguay Round to negotiations at the Organization for Economic Cooperation and Development (OECD) to discipline the use of export credits. Those negotiations continue. There is little disagreement that the Department of Agriculture's (USDA) export credit programs are one of the most significant, if not the single most instrumental, tool

the US is employing both to maintain market access in a number of critical markets and to open new ones. There is just as little disagreement that additional disciplines on export credits, those of the US as well as other countries, would contribute to greater liberalization.

In this very important instance, there is a conflict between the objective of promoting market access and trade reform. This conflict has been the paramount reason the OECD negotiations have not yet concluded, and still present the parties some very difficult decisions before an agreement can be concluded.

There are others, but this contemporary example strikingly illustrates the need to reconcile the goals of market access and trade reform. Because if the policy does not set a primary goal - be it market access or trade reform - it places the negotiator attempting to execute policy in a negotiator's most difficult position - not knowing what he or she wants.

MARKET ACCESS: WHAT WILL THE US BUY?

Market access, and by extension US agricultural trade policy, is not and cannot be just about exports, what and how much the US is selling, where, and on what terms, especially as trade policy becomes more integral to the America's overall relations with other countries. As the US seeks complimentary concessions in new multilateral negotiations, import access - be it on a bilateral, regional, or global basis - will grow in importance in shaping the new paradigm for US agricultural trade policy. Yet, it largely is a poor stepchild to the drive for selling more.

If the US only grudgingly opens its markets, it cannot reasonably expect complimentary concessions from others, concessions that are the heart of the proposal the US laid out before the World Trade Organization (WTO) last summer. Additionally, the extent exporters, particularly those in the developing world, have access to the US market will determine their ability to grow their own economies - growth that will ultimately improving them as US customers and further strengthening the ancillary, and crucial, relationships that follow trade.

Indeed, many of the most difficult choices American agriculture will likely face will be the terms of access the US is prepared to permit to its market. Yet, these will be decisions as critical as any other because they will determine, in part, the negotiator's corollary guiding principle: Know what you can pay, and are willing to pay, to attain your objective.

CLINTON COMMERCIALISM

The first building block of the new agriculture trade paradigm is recognizing the context in which agricultural trade policy will be executed. Many observers have, rightfully, pointed to the trade record of the Clinton Administration as among its most important and enduring legacy in reshaping the US role in the world in the post-Cold War. However, it was not the Clinton Administration that originated the policy

Dollars and diplomacy have gone hand in hand throughout US

history. Even the former Administration's crowning achievement in this regard - the agreement to grant China permanent normal trade relations (PNTR) - has its roots in the historic yearning of American exporters to open the China market, a drive virtually as old as the republic itself.

Nonetheless, with the end of the Cold War and the dissolution of many of the political and diplomatic ties and frictions that defined world affairs, and guided commercial relations as well, for almost five decades, trade and commerce have become the new language of world affairs. The US will no longer define its relations with other countries solely by political alliances and allegiances, but also by commercial ties.

Likewise, commercial ties - objectives and concessions - will increasingly be important in achieving and fleshing out broader relationships and goals. Again, the importance of China PNTR cannot be understood fully as merely a commercial relationship. It is also as a turning point in the US goal of a broader relationship with China and the aim of the US to bring China more fully into the world community.

For agriculture trade policy, this evolution means a more forthright view of the hand-in-glove relationship between farm trade and foreign policy. As much as some involved in US agriculture cling to the notion that agriculture trade is and should be a purely commercial matter, the truth is that the US has often and frequently used farm trade for foreign policy objectives, and that foreign policy has likewise served the interests of farm exports.

This is certainly not a new trend. One of most enduring achievements of US diplomacy in recent years was the rebuilding of Europe following the second World War, a job that would have been infinitely more complex, perhaps unattainable, without the contributions of American agriculture. More recently, the agricultural export assistance the US lent to Mexico and East Asia were critical in stabilizing those economies during their respective financial crises. The aid that went from American farms to Russian store shelves was likewise instrumental to US efforts assisting Russia's emergence from the former Soviet Union.

In sum, Clinton Commercialism is neither entirely new, but it has defined more fully the role of trade in shaping the US relationship with the world. As one of the largest exporting sectors of the economy, and most export sensitive, US agriculture and food exports will, and should, find themselves more wholly integrated into the US leadership role in the world.

BEYOND THE WASHINGTON-BRUSSELS AXIS

Just as the Cold War mentality no longer can dominate the broader US role in the world, neither too can the Uruguay Round mentality dominate US agricultural trade policy. Yet, it does. US agriculture's largest customers today are in Japan, Mexico, Canada and many of American farmers' most important customers in the future will be in Asia, Africa, and Latin America. Yet, most of US farm trade policy continues to be driven by the tensions and negotiations that led up to, produced, and linger from the Uruguay Round.

It is time to break out of the Eurocentric view that has so dominated farm trade policy and, important, that has commanded so many of US trade resources - from personnel to dollars to political capital - for the last two decades. The US farm trade relationship with Europe will be important, but as the WTO matures, proceeds with the Uruguay Round built-in agenda, and as it attempts to produce another round of multilateral trade negotiations, the US cannot afford to put all of its agricultural trade eggs into the European basket.

But the US has, to a very, very large extent done just that. As important as the comprehensive proposal the US tabled at the WTO is, it mostly continues the debate of the Uruguay Round, taking direct aim at Europe without providing the same direct response to the needs of the US customers of the future.

One of the first lessons of politics is learning to count, and from that simple perspective alone, a flaw of current US policy emerges. In a body of over 140 members, the US and the EU are but two. An important lesson to learn from the negotiating sessions the WTO conducted over the last year and as it prepares for the March stock-taking session is the vigorous contribution many of the other 140 plus members made, especially the developing countries.

In short, the quad may have outlived its time. While the US, EU, Canada, and Japan must continue to play important leadership roles in the WTO - singularly and collectively -- especially with respect to agriculture, done are the days when the quad can, or should, preordain the outcome of future agricultural trade negotiations. Moreover, as the US looks to further its objectives, many of the countries who have been on the outside looking in those whose interests are similar to ours and, in terms of market access, represent the future for American farmers and food exporters.

THE US-EU FOOD FIGHT: DOES ANYONE WIN?

While the lingering Uruguay Round differences between the US and EU on farm and farm trade policy are striking, in many respects, the similarities are equally compelling. For example, the EU's insistence on adding multi-functionality to the core negotiating principles at the WTO has been met with opposition, hostility, and derision by many in the US agricultural community. Yet, US farm policy, in its broadest sense, is a model of multi-functionality. Few other farm policies in the world are designed to achieve, and do in fact achieve, as broad, diverse, and multi-functional goals as does US policy.

Consequently, the US and EU have expended far too much time and energy on a false argument, one largely over labels instead of devoting that time and energy to providing leadership for a new round of liberalization and cooperating to solve common problems.

For example, one of the most complex problems American agriculture faces is the ensuring consumer confidence in the food supply - be meat and poultry safety or acceptance of the products of biotechnology. Europe stands much to gain from learning the lessons of how the US has structured its food confidence system, which is indeed unmatched. The US needs to understand the

European experience with problems such as the backlash against biotechnology so US policies are not developed based only on the sterility of the scientists' laboratories but also account fully for consumer and social worries.

The EU and US have an incredible stake in the growth of the developing countries, and not simply a mercantile stake. As their agriculture and food systems mature, and their economies grow, they will become better customers for the higher value products that will become increasingly important to US agricultural exports. That process of growth - from farm to village to city - will also be key to the maturation of their political stability and integration into the world community.

WHAT LIES AHEAD?

Finally, a brief word about emerging trends that have hitherto remained largely outside of the debate on agricultural trade policy. Although not central to questions about export subsidies, domestic supports, or tariff levels, some of the developments affecting world commerce will undoubtedly influence both agricultural production and trade, and thus policy.

For example, the internet may well revolutionize the way food trade is conducted just as it has changed the way many of us buy books. The rise of ever more multinational food companies who straddle many, many political systems and the concentration of this industry in the US as well as around the world, will profoundly shape the way food is traded, and thus the need for accompanying changes in food trade policy. Finally, new environmental trends - from global warming to protecting genetic diversity to water scarcity - will affect world agricultural production and thus needs to be accounted for in world, and US, agricultural trade policy.

FARM TRADE'S TOP TO BOTTOM REVIEW

Now is an especially appropriate time to rethink US farm trade policy. The WTO is on the eve of its stock-taking session to review the negotiating proposals put forward over the last year and lay the foundation for further trade negotiations. This comes at the outset of new administration in the US, presumably sorting through its policies and priorities, including taking a comprehensive and fresh look at the future and US objectives. In so doing, it is appropriate that the new administration undertake the agricultural trade policy equivalent of the top to bottom review it has launched of defense policy.

That examination needs to account for the potential for conflicts between policies of market access and trade liberalization, the integration of agricultural trade policy into all aspects of the US leadership role in world affairs, broadening the focus of farm trade policy beyond the narrow confines of US-EU disagreements, and explore new trends that may affect farming and farm trade in the future.

IMPROVING MARKET ACCESS: ECONOMIC CONSEQUENCES OF MULTILATERAL AGREEMENTS

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Introduction

An assessment of issues related to the three pillars of the Uruguay Round Agreement on Agriculture (URAA) is an important part of the OECD's programme of work on the analysis of impacts of and options for the reform of trade policies. In this context, work has recently been completed on the evaluation of the implementation of commitments on domestic support, export subsidies and markets access which signatory countries have undertaken under the URAA¹. Work of a more forward looking nature has also been completed on export subsidies and is in progress with regard to market access². This paper draws on this work. It first briefly explains the tools and analytical framework employed in the analysis, and the limitations these impose on the analysis; then, an overview will be provided of Tress, fill rates and tariff structure that has resulted from the URAA; the paper finishes with an outline of future work on market impacts of different options for further improvement in market access.

Tools and methods

The main tools used in the analysis presented in this paper are the Agricultural Market Access Database (AMAD) and the OECD's Aglink model. AMAD is a co-operative effort between Agriculture and Agri-food Canada, EU Commission-Agriculture Director-General, FAO, OECD, The World Bank, UNCTAD, and the United States Department of Agriculture-Economic Research Service. AMAD includes data on bound tariff volumes, scheduled in-quota, over-quota and MFN tariff rates, applied MFN tariff rates, notified imports under the TRQ, TRQ country allocations, import volumes and values, supply and utilisation data, world reference prices, import unit values and primary product equivalent factors. The participating agencies, under co-ordination of the OECD Secretariat, have agreed to continue maintenance and an annual update. AMAD is available free of charge on www.amad.org.

The Aglink model is a partial equilibrium, net trade model of global agriculture, which the OECD has developed in cooperation with its Member countries, and which it uses in its medium term outlook work and in the forward looking analysis of domestic and trade policy issues. The model has been substantially modified to make it more appropriate for the analysis of market access issues. In particular, all relevant TRQ and tariff information has been included while in a number

¹ An evaluation of the implementation of the Uruguay Round Agreement on Agriculture with regard to domestic support, export subsidies and market access. OECD, December 2000.

² A forward looking analysis of the elimination of export subsidies. OECD, December 2000.

of important cases its net trade specification has been modified to account for endogenous determination of both imports and exports.

The analytical framework for the analysis recognises that there are three policy levers associated with the TRQ regime that governments can use to influence imports. These are quotas, in-quota tariffs and out-of-quota tariffs. However, only one policy instrument at a time is the binding instrument. So, for any importing country at any one time, either the quota, the lower in-quota tariff, or the higher, out-of-quota tariff determines domestic and world prices and import volume. The TRQ system operates in such a way that imports can be: (1) less or equal to the TRQ and enter at the in-quota tariff rate, (2) larger than the TRQ, but still enter at the in-quota tariff rate, (3) in excess of the TRQ and enter at the over-quota tariff rate, and finally (4) there can be non quota imports.

The combination of this particular set of tools and methods poses some limitations to the analysis. For instance, the structure of the Aglink model and its underlying assumptions allow for an analysis of *aggregate* world market impacts for the more *homogeneous* products. Also, Aglink is a commodity based model with a much more aggregated product coverage than the individual TRQs as covered in the AMAD database. A concordance table mapping the HS codes from the TRQ schedules to commodities represented in Aglink was needed. This has necessarily included a certain amount of arbitrariness. For instance, there are cases where one TRQ is scheduled, but this TRQ covers more products in Aglink. In other cases TRQs are scheduled for a basket of commodities not all of which may be included in the model's definition of the product, or more than one TRQ is scheduled for what is recognised only as a single product in the model.

TRQs and fill rates

Under a TRQ system, a lower tariff (in-quota) applies to imports within the quota while a higher tariff (out-of-quota) applies to imports exceeding the quota. As of May 2000, 37 countries, including all OECD Members other than Turkey, had committed about 1 370 individual TRQs to this system. OECD countries schedules 59 per cent of the total, or 810 TRQs. Once these TRQs are further restricted and aggregated to the commodity coverage in Aglink, only 91 remain in our sample³.

One indicator that may be used in assessing progress in enlarging market access is the TRQ fill rate. An assessment of this for the 810 TRQs scheduled by OECD countries provides some ambiguous results. For instance, looking at the average for 1995 to 1998, the total average fill rate for OECD countries was 170 per cent. However, this number is biased upwards because equal weight is given to TRQs irrespective the volume of trade. Thus the 1000 per cent fill rate in case of 1 tonne TRQ and a 10 tonne actual trade has the same weight as the 100 per cent fill rate of a 1 million tonne TRQ and an equal volume of trade.

³ The commodity coverage in Aglink is wheat, rice, coarse grains, soyabean, rapeseed, sunflower seed, oilseed oil, palm oil, oilseed meal, beef, pork, poultry, sheepmeat, milk, butter, cheese, whole milk powder, skimmed milk powder, whey powder and casein.

So probably a more meaningful picture is obtained when we look at the distribution of fill rates across various fill ranges. This shows that a relatively large number of TRQs are in low fill rate ranges. Of the 810 TRQs scheduled by OECD countries, about 25 per cent are filled for less than 20 per cent. In addition, this share slightly increased over the 1995 to 1998 period, while at the same time the share of TRQs with a more than 100 per cent fill rate has declined. In while in 1995 the number of TRQs with a more than 100 per cent fill rate was larger than that with a less than 20 per cent fill rate, in 1998 this difference had disappeared and the latter was actually even slightly larger than the former.

When the focus of the analysis shifts to commodities, a number of interesting facts are revealed. First, oilseeds and their products are the least protected from all commodities covered in the Aglink model. In fact, of the 91 TRQs covered by the model, there are none for oilseed meal, only two for oilseeds and three for oilseed oil. The other conclusion that comes out from this comparison across commodities is that none of the 91 Aglink TRQs have a 100 per cent fill rate. Rice comes closest at 91 per cent, and whey powder has the lowest average fill rate at 61 per cent.

Another potential indicator of the extent to which TRQs may restrict trade, is provided by a comparison between the total scheduled TRQ volume for a particular product and total world imports of that product. If total trade is large relative to the scheduled TRQs, their trade restrictiveness may be relatively small. But if the volume of scheduled TRQs is equal to or larger than global imports, this would suggest that they are a limiting factor to trade development. This comparison shows that the TRQ system might be particularly restrictive as regard trade for certain dairy products such as WMP, where global imports are 65 per cent of the total scheduled TRQs and SMP, where trade is only 4 per cent larger than the quota. Again, oilseeds and their products are at the other end of the spectre, with global imports exceeding 29 times the TRQ level for oilseeds and even more than 60 times that for vegetable oils.

Tariffs

Analysing and understanding the effects of the TRQ system also needs information on tariffs that have resulted following the Agreement. This section provides information on the general average tariff level for the countries and commodities in our sample to offer an overview of the average protection level among the countries and between products. In this analysis, specific tariffs have to be converted to their ad valorum equivalents. The issue of specific tariffs is an important one, as some 40 per cent of the items the tariff schedule covered Aglink countries and commodities include a specific tariff. There is no commonly agreed procedure for the conversion of specific tariffs. In this paper the calculations are based on reference prices used in Aglink.

The results show that the protection level for the countries and commodities in the sample used for this analysis remains high, despite the reduction commitments under the URAA. The average level of in-quota, over-quota and no quota tariffs in 1995 was 71 per cent. They fell to 58 per cent in 2000. The reduction in tariffs of some 18 per cent is only half that stipulated in the Agreement. This again highlights the importance of specific tariffs in the calculation. Scheduled tariffs, including the specific tariffs, indeed fall by the 36 per cent countries have committed themselves to. But the fact that world prices have generally fallen during second half of the

1990s implies that the ad valorum equivalents of specific tariffs have fallen by less than the 36 per cent required, and may actually have increased.

An examination of the tariff structure across countries and commodities shows that Japan has the highest tariffs among OECD countries, with an average of 152 per cent in 2000. This compares with lows for Australia and New Zealand of 3.5 and 5.5 per cent respectively. Within these average tariffs, important differences exist between in-quota, over-quota and no quota tariffs. The in quota tariffs are relatively low and fall to 20 per cent in 2000. Over-quota tariffs are more than seven times as high, with an average of almost 150 per cent in 2000, and a high of 600 per cent for whey powder. Tariff rates for non quota products are substantially lower than these over quota tariffs, but still some 10 percentage points above the in-quota tariff rates. The over-quota tariffs almost certainly prohibit any trade over the quota, unless this is allowed by the importing country to happen at in-quota tariffs. While in-quota tariffs and tariffs from non-quota products are much lower, they are certainly not trivial and may represent significant hurdles. This is possibly one reason for the relatively low fill rates mentioned above.

An examination of the tariff structure across commodities confirms the evidence from the TRQ examination, namely that oilseeds and their products are the least protected commodities, while the level of protection for dairy products is highest. The average tariff on oilmeals, for instance, is only 6 per cent. This compares with dairy products, which have depending on the product, the highest rates for all types of tariffs. For instance, at 39 per cent, the average in-quota tariff for butter is 40 per cent more than the next highest rate which is levied on pork. At nearly 600 per cent, the average over-quota rate for whey powder is 2 to 2.5 times higher than the next highest rate, which is applied to other dairy products – butter and WMP. It is more than three times as high than the over-quota rate for wheat, the first non dairy product in this league.

Implications of further market access liberalisation

The OECD's Aglink model will be applied to assess the effect on international and domestic markets of options for further market access liberalisation. In this analysis, a scenario with various types of trade liberalisation will be compared against baseline projections where average tariff rates in the year 2000 are held fixed for the outlook period. We assume that low demand – rather than quota administration – is the reason for low fill rates. To the extent that this is not true, the results of the scenarios may have an upward bias.

In this work, the following liberalisation scenarios will be examined:

- 1) a gradual 5% increase in quotas,
- 2) a gradual 50% increase in quotas (to gauge the sensitivity of the results to different quota expansion rates),
- 3) same as 1 but including a gradual 36% reduction for in-quota tariff rates,
- 4) same as 2 but includes a 36% reduction for average in-quota rates,
- 5) a gradual 36% reduction in out-of-quota and non-quota tariff rates.

As this work is in progress, conclusions drawn at this stage can only be tentative. One important conclusion is that in a context where many TRQs are under filled, the amount by which quotas are expanded – be this five or fifty per cent - does not lead to materially different results. A result consistent with expectations. Results available at this stage also suggest that when quota

expansion is combined with a lowering of in-quota rates, the impacts on world prices becomes larger. Again, this is consistent with expectations: if in-quota tariffs are reduced, and quota administration does not explain underfill, that this lowering of tariffs will lead to increased trade, until the TRQ becomes the binding instrument. Thus, combining in-quota tariff reduction with an expansion of the TRQ should generate more trade and larger world price impacts. The tentative results suggest, finally, that the largest impacts occur when all tariffs are reduced simultaneously.

Finally, the analysis shows that under a TRQ system, only one instrument is binding at a time, that the binding instrument may change over time and that it alters for different commodities within a country and among commodities between countries. The largest market impacts of further trade liberalisation will therefore be achieved through liberalisation of all TRQ related instruments, i.e. in-quota tariffs, over-quota tariffs and the quota itself, at the same time.

REMARKS AS PREPARED FOR DELIVERY

**Remarks of Mattie R. Sharpless
Acting Administrator
Foreign Agricultural Service
U.S. Department of Agriculture
Before the Agricultural Outlook Forum 2001
Arlington, Virginia
Thursday, February 22, 2001**

“Transforming Market Access Into U.S. Agricultural Sales”

Good afternoon. Thank you for inviting me to speak on this panel. As the title of my presentation suggests, I am going to discuss how USDA's Foreign Agricultural Service (FAS) is taking its market access strategy in a new direction to transform access into sales. But first, I want to highlight the overall importance of trade liberalization to U.S. agriculture.

Importance of Open Markets

Several elements of trade are crucially important to the long-term success of U.S. farmers and ranchers. First, U.S. agriculture is more than twice as dependent on exports as the U.S. general economy. About 25 percent of agricultural sales are for export, compared with 10 percent on average for manufactured goods.

Second, open markets translate into economic growth, including growth in rural communities. Trade liberalization expands outlets for agricultural products, raises prices, and creates more and better paying jobs, both on and off the farm. In the United States, an estimated three-quarters of a million jobs are related to the production, assembly, processing, and distribution of U.S. agricultural products for export. Of this total, the majority -- 470,000 jobs -- are off the farm.

Third, trade agreements are the key to expanding export markets and increasing market access to customers outside the United States. That's why U.S. Trade Representative Robert Zoellick wants to reestablish fast-track negotiating authority. We need this authority to lead the way on global market-opening agreements.

Ambassador Zoellick has made it clear that some of our top trade priorities involve our own hemisphere. These efforts will begin at the Summit of the Americas meeting in Quebec City in April where the Free Trade Area of the Americas will be discussed. The United States will also continue to pursue bilateral and regional trade agreements, such as the Chilean Free Trade Agreement and the Asia Pacific Economic Cooperation forum.

We will also continue our multilateral efforts in the negotiations in agriculture at the World Trade Organization's (WTO) Special Session of the Committee on Agriculture. Last June, the United States presented a comprehensive and well-received negotiating proposal to this committee. The U.S. proposal reinforces what we already know about open markets -- they benefit both producers and consumers.

By eliminating trade barriers and reducing unfair competition, trade liberalization helps ensure that farmers have incentives to produce and consumers worldwide have access to the products they desire. Open markets help farmers around the world allocate resources better, make conservation of natural resources possible, reward low-cost producers, and encourage specialization and technological innovation. This creates more efficient agricultural and non-agricultural production. For food insecure nations, trade liberalization saves lives by making food products more readily available from areas with abundant production to areas where food is scarce.

Coming to Grips with the Loss of Market Share

But, while continued worldwide trade liberalization is necessary for the ongoing growth of U.S. agricultural exports and the larger farm economy, a broader trade vision is needed to help our producers reach their full export potential. There is growing bipartisan concern that our producers' economic welfare is being undermined by an ongoing decline in the U.S. share of world agricultural trade. Twenty years ago, the United States was clearly the world export leader, accounting for 24 percent of world trade. Today, that share stands at roughly 18 percent (1999 world trade was estimated at \$285 billion). Granted, our exports have risen substantially -- and will continue to rise -- but they are doing so at a slower rate than other exporters.

As a result, America's once overwhelming leadership as an exporter has slipped to the point where the European Union (EU), our major competitor, is on the verge of overtaking us as the world's largest agricultural exporter. Twenty years ago, the EU was a distant second. Losing six points may not sound like much, but every percentage point of market share we lose amounts to \$3 billion in lost agricultural exports and \$750 million in reduced farm income per year.

Several factors have contributed to the drop in the U.S. agricultural market share:

- 1) the strong dollar;
- 2) aggressive investment in export promotion by our competitors;
- 3) over-reliance on mature markets; and
- 4) extensive use of domestic farm supports by the EU.

Strong dollar. While the U.S. dollar has remained strong, our competitors' currency has fallen in value, making their products cheaper relative to U.S. offerings and hurting the competitiveness of U.S. products.

Aggressive investment in export promotion by competitors. Unfortunately, combined U.S. spending on market development activities by government and producer groups is down almost 25 percent from 1991's level of \$350 million. Even a sharp increase in promotional spending by industry groups did not offset a 50-percent decline in U.S. Government spending. Meanwhile, our major competitors -- the EU and the Cairns Group -- were quick to capitalize on our reduced effort and use it to their benefit by increasing their combined market development activities by 50 percent to more than \$1 billion.

Over-reliance on mature markets. U.S. exports have relied more on large, mature country and commodity markets whose overall import demand growth is slower than that of the rest of the world. Two-thirds of U.S. exports go to our six largest country markets (Japan, the EU, Canada, Mexico, South Korea, and Taiwan). Since 1992, all but one has seen import demand growth slow to below the world average. This is no match for the strong import growth

demonstrated by Asian countries (other than Japan) and South America. Likewise, on a commodity basis, U.S. exports are more heavily dependent on the slower growing, price sensitive bulk commodities with which we have a comparative advantage. Our competitors, however, have focused on the faster-growing, high-value products, where the global import market is substantially greater.

Taken together, this means the markets we have relied on in the past are becoming less dominant in global agricultural trade. If the United States is to expand its share of world agricultural trade, our exporters will need to develop those markets that will increasingly dominate world trade over the next 10 years.

Extensive use of domestic farm supports by the EU. Although the Uruguay Round disciplined the use of domestic support, competitors like the EU still use them to a far greater extent than the United States. According to the Organization for Economic Cooperation and Development, total EU production supports were estimated at \$114.5 billion in 1999, compared to \$54 billion for the United States.

Global Marketing Strategy

With the U.S. share of global agricultural exports nearing a 20-year low, FAS has set a goal of increasing the U.S. share of world agricultural exports to 22 percent by 2010, reversing much of the decline of the past 20 years.

Can we do it? A glance at the USDA baseline scenario indicates that our economists believe the United States can export \$76 billion in farm goods by 2010, up an impressive 40 percent from the current level of \$53 billion. However, this is comparable to expected gains by competitors; so there will be little change in the U.S. share of world agricultural trade through 2010 -- it will remain at roughly 18 percent.

We must do better. The baseline scenario assumes no change in our trade or farm policy environment and no change in export promotion programs. However, to increase our market share poses a major challenge and will require an aggressive marketing strategy. The benefits of success would be substantial -- in terms of increased U.S. exports and farm income.

Our strategic focus. We are still developing the details of our marketing strategy and consulting with others in government and industry to determine the best course of action. Nevertheless, we are convinced of two things. First, the best way to boost our overall share of world trade is to capture a greater share than our competitors of the trade benefits associated with multilateral reform. Trade reform offers vast opportunities to many exporting nations, but the ones who reap the greatest benefits are those that invest in developing the new markets created by reform. Clearly global competition will continue to intensify, indicating a need for a greater and more focused role for export promotion than in the past.

Second, we will sharpen our strategic focus on those fast-growing, emerging markets that we expect to have the most potential for market share expansion. Our analysis shows that Asian countries (other than Japan), Latin America, and some selected opportunities in Africa and the Middle East lead the list. Over the next decade, food consumption in these markets will surge, benefitting from very favorable demographics -- a growing middle class who have rapidly rising disposable incomes, and a willingness to spend their wealth on more and better food. Gaining

share in these fast-growing markets, without sacrificing hard won gains in large mature markets like Japan and the EU, is the most effective way of increasing our share of world trade.

Agricultural Trade Missions

We did not set our trade goals in a vacuum. All of FAS' programs and activities are supported by a network of Agricultural Counselors, Attachés, and Agricultural Trade Officers located at 61 American Embassies covering about 130 countries around the globe. These officers are the "eyes and ears" for U.S. agricultural producers and exporters. They gather data about a country's crop production, consumer preferences, and marketing system and send this information to Washington, where it is supplemented, compiled, analyzed, and disseminated nationwide. This information helps U.S. farmers, traders, and exporters know where crop shortfalls exist, where competition is greatest, or how they might need to change their products or packaging to meet changing demand overseas. Based on input and analyses from the field and at headquarters, we developed our list of countries and regions with the greatest growth potential.

So far, I have been talking in theoretical terms, but I want to take a few minutes to share with you how we have applied these concepts to the real world. In the past year, I have had the privilege of co-leading two trade teams to major emerging markets in Africa and Latin America. On each of these trade team missions, we had more than 30 representatives from small- and medium-sized U.S. firms, exporters, and agribusinesses traveling with us to explore the sales potential for their products in these high-growth markets. The companies represented a diversity of bulk, value-added, and consumer-ready products.

In Africa, we visited Morocco, Senegal, Ghana, and Nigeria. In Latin America, we visited Argentina, Colombia, Venezuela, and Costa Rica. In each country, U.S. company representatives had the opportunity to meet with importers and distributors, make direct export sales, and establish contacts for future sales. At each stop on the itinerary, they visited a supermarket to see firsthand how the products would be handled and displayed. The missions also served as a forum for spearheading discussions on trade issues with each host government. In addition, we educated foreign importers about USDA export credit guarantee programs that facilitate trade by providing exporters with short- and intermediate-term commercial financing support.

The overwhelming response from the U.S. companies that accompanied us was very positive. Sales made or expected over the next year are projected at around \$20 million. Participants on the African mission came to realize that tapping into prospective niche markets there may be the answer to capturing more export sales. Participants on the Latin American mission saw substantial potential in these emerging growth markets. More of these types of activities will give U.S. exporters firsthand exposure to greater niche market opportunities for high-value products.

Conclusion

As U.S. Trade Representative Robert Zoellick said during his recent confirmation hearing, "America's trade and economic interests extend far beyond this hemisphere. We want to launch a new round of global trade negotiations, emphasizing a key role for agriculture. We will seek to negotiate regional and bilateral agreements to open markets around the world."

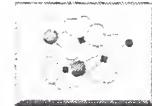
In this first decade of the 21st century, USDA is determined to accomplish these goals. We

will continue to pursue bilateral, regional, and multilateral trade agreements with the best interests of U.S. agriculture in mind. We will work hard to meet the challenges of expanding U.S. agriculture's market share by reinventing and reinvigorating our global marketing strategy and synchronizing it with the strategies of our industry partners. And we will continue to be there for U.S. farmers, ranchers, and exporters by meeting the competition head on. Thank you.

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Ag Outlook Forum 2001

Agro Management Group, Inc.



James W. Lambert, CEO

**Downstream Impacts
of Industrial Uses and
Renewability**

Linking the Participants

**Bio-based
Community**

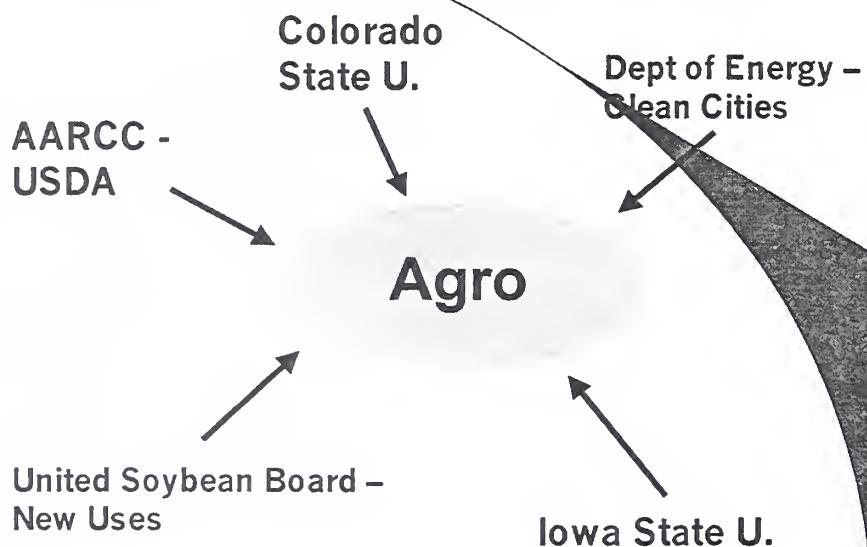


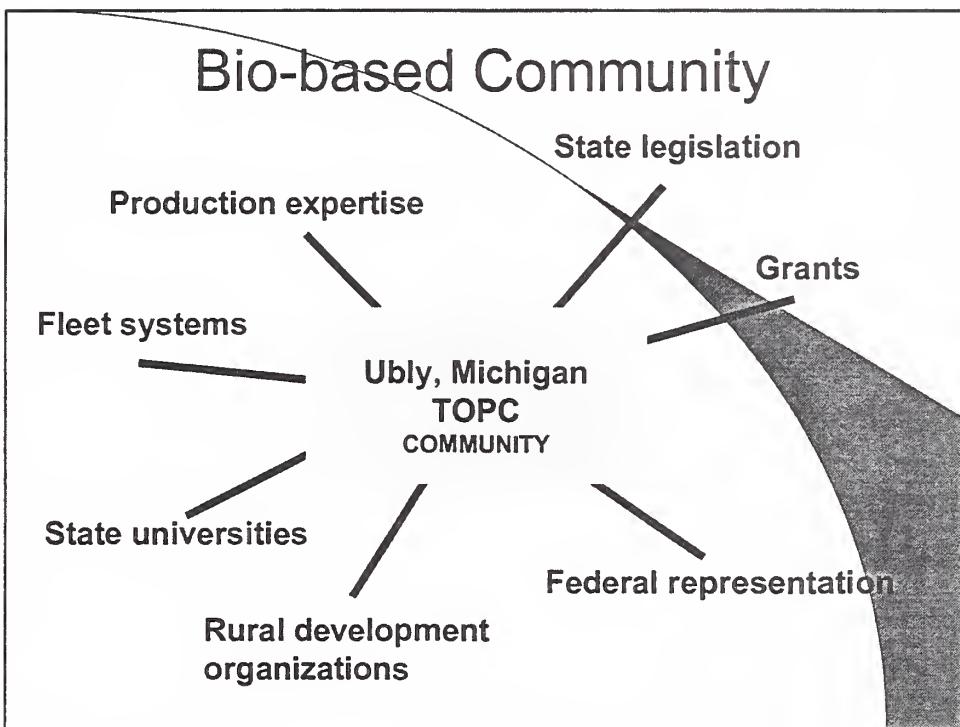
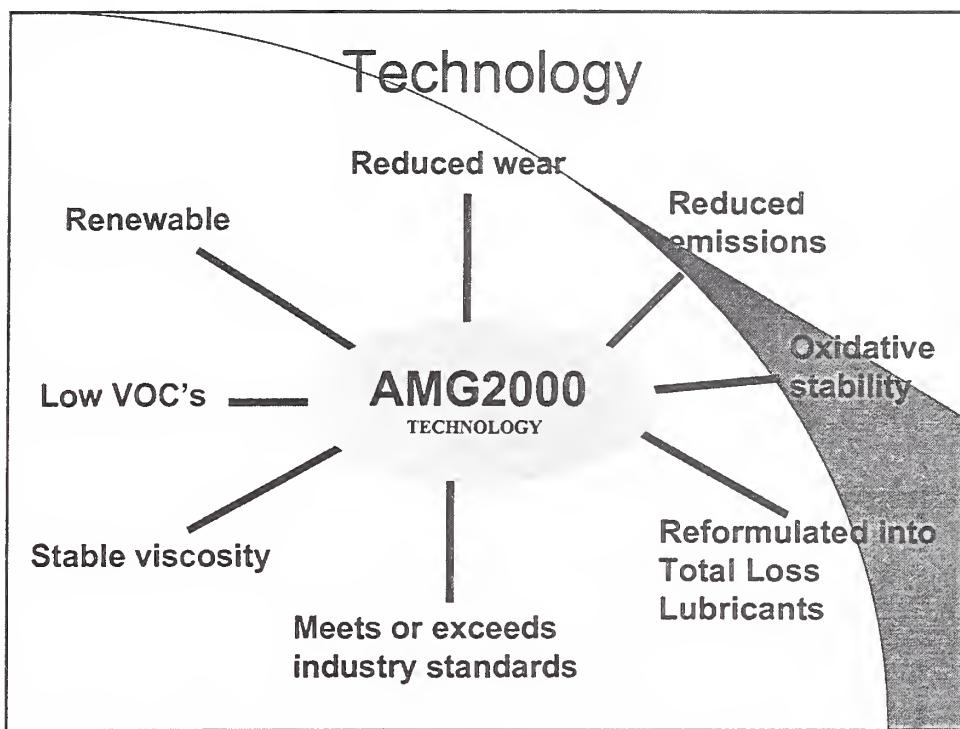
**Bio-based
Technologies**

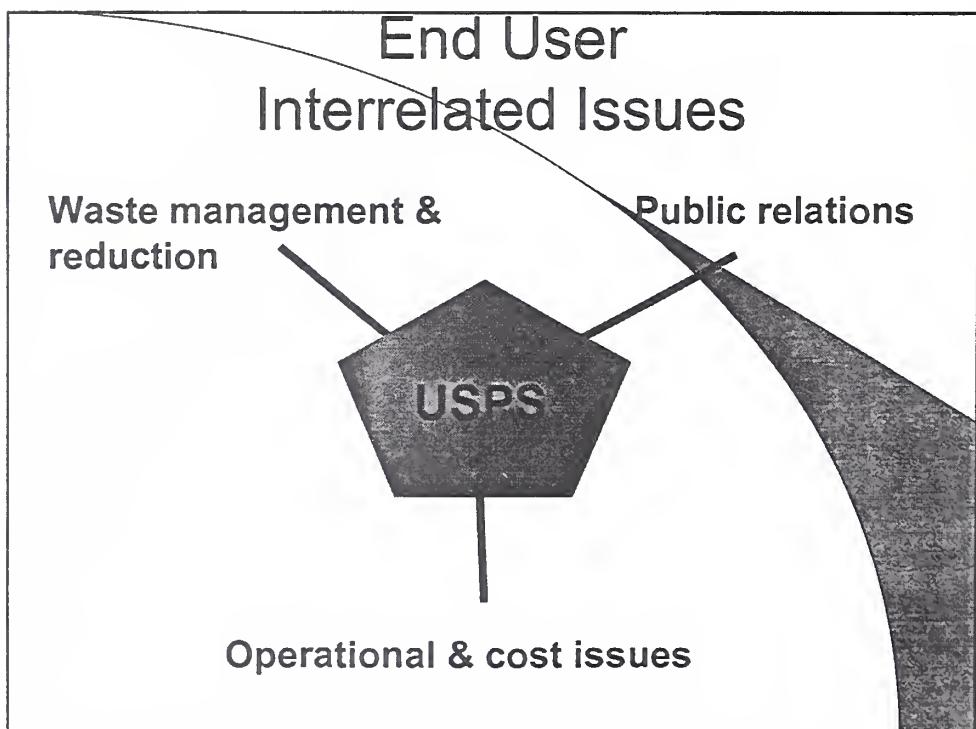
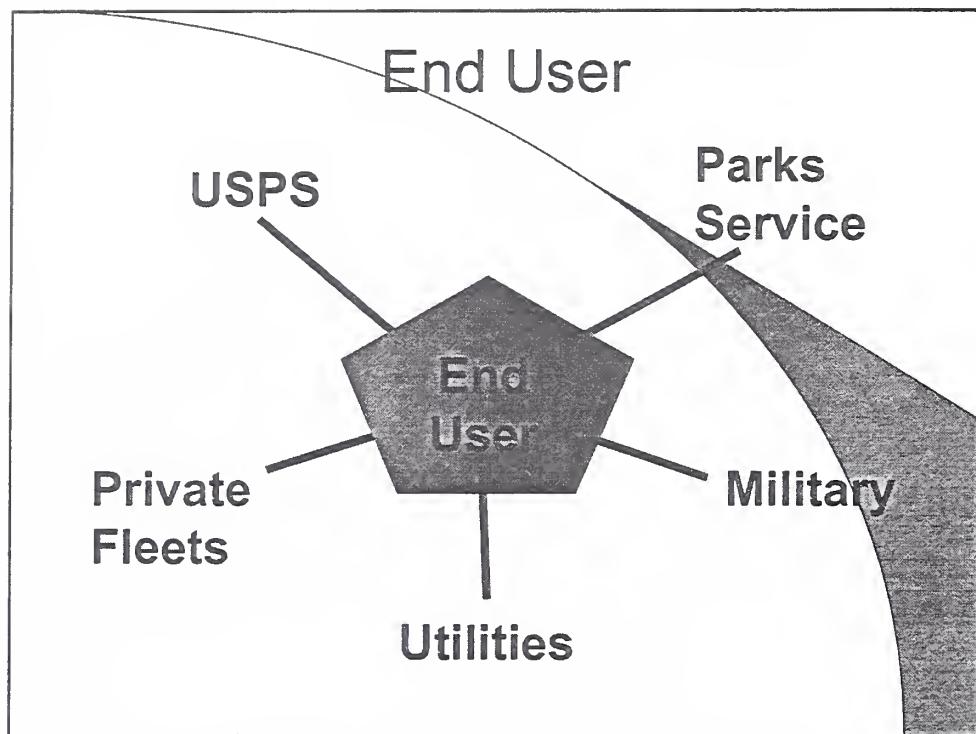
Agro Management Group, Inc.

- ❖ Research & development, marketing company
- ❖ Invented AMG2000
- ❖ Designed Michigan model™ to bring together educational, community, private and public organizations to produce and market bio-based products
- ❖ Replicated model in Eads, Colorado
- ❖ Emphasize use of local commodity bases

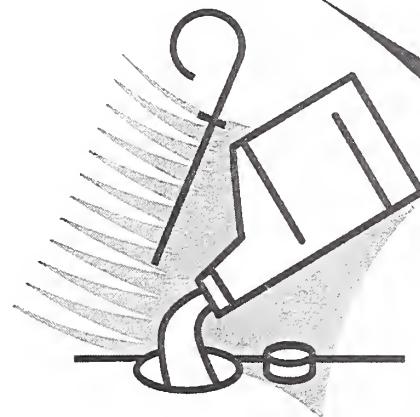
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Major Filter OEM



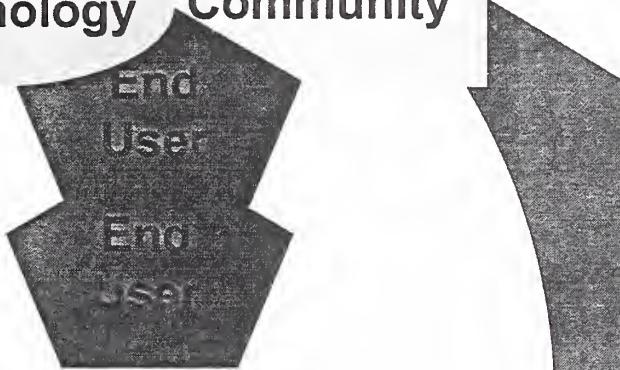
Operational & cost issues

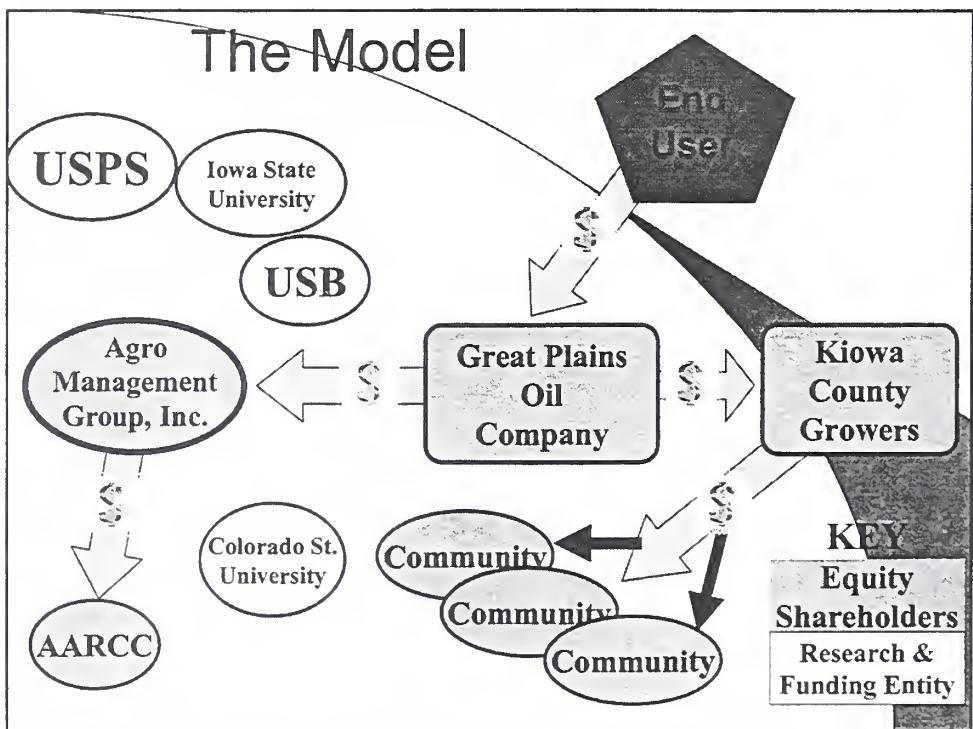
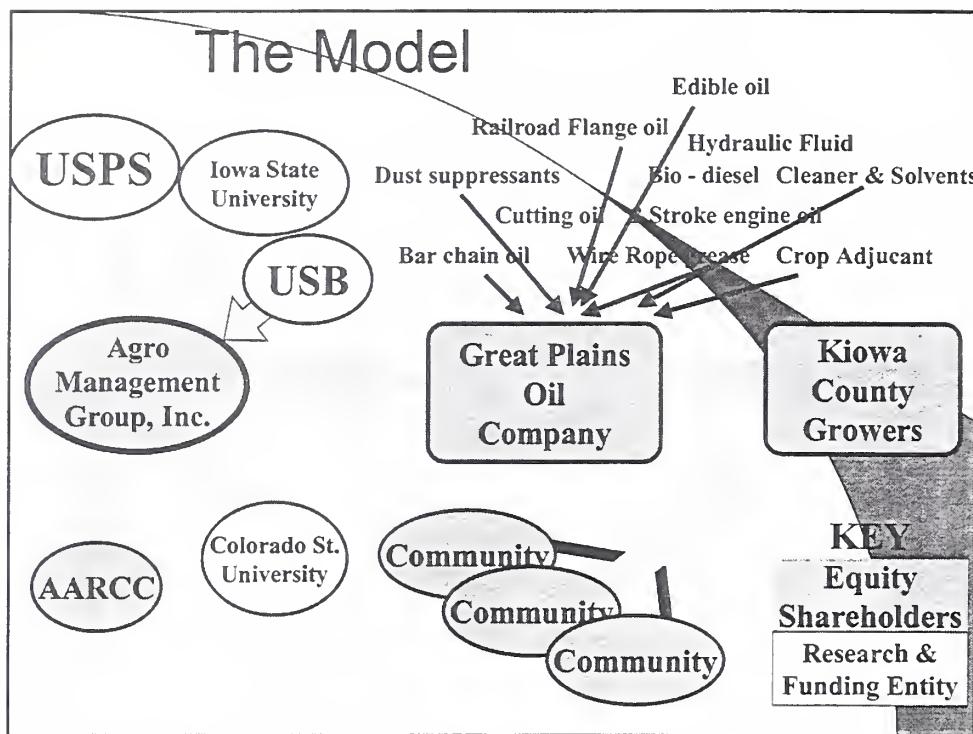
Bringing It All Together

Technology

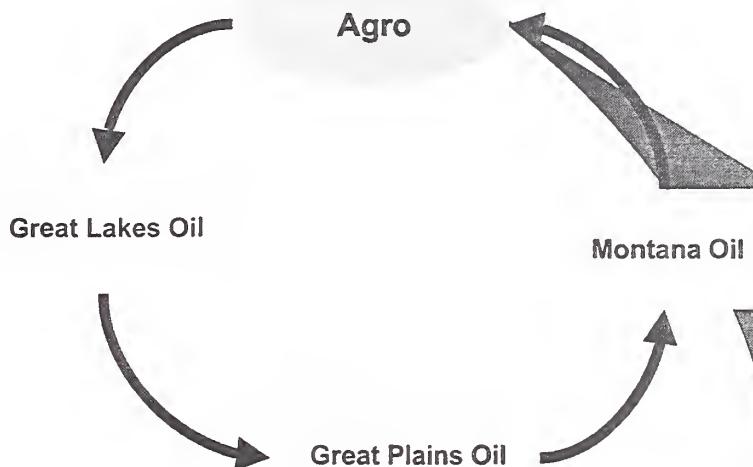
Community

Technology Community





Mutually Supporting Efforts



Hurdles

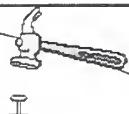


Product

- ❖ Perception
- ❖ Status quo
- ❖ Authority
- ❖ Bias

Community

- ❖ Working together
- ❖ Micromanagement
- ❖ Patience



Impact

- ❖ Reduce reliance on foreign oil
 - ❖ Each 1,000 acres of sunflower reduces need for 18,000 barrels of crude to produce motor oil
- ❖ Reduces emissions
 - ❖ Aids in maintenance reduction
- ❖ Renewable
 - ❖ Each 1,000 acres yields ~\$800,000 to community over gate value
- ❖ Value added
 - ❖ Jobs, development, dollar multiplier
- ❖ Promise of hope



Outlook

The plight of the family farm in the '80s is the plight of the rural community today.

Website

www.agromgt.com

HOW WILL AGRICULTURAL E-MARKETS EVOLVE?

Bill Pool
Director of Brand Marketing
Rooster.com

Good afternoon.

As I stand before you today, I am actually living the title of my presentation. In our experience, it is no longer a question of if agricultural e-markets will evolve, but how.

One week ago today, Rooster.com and Pradium announced their intention to merge their businesses. Both companies have complimentary online agricultural exchanges. This proposed merger connects exchanges that were targeting opposite ends of the food chain. At Rooster.com, our customers are producers, retailers, elevators and processors. Pradium connects traders with banks, freight suppliers, exporters and the futures market. The merger will create a clear path connecting the entire supply chain.

At Rooster.com, we draw a clear distinction between e-commerce and e-businesses. In our world, e-commerce is simply the process by which a producer logs on to the Internet and purchases a pallet of Roundup Ultra. **We are not in the business of e-commerce.**

In our broad view, e-business is about connectivity in agriculture. We are in the business of e-business. Our mission is to facilitate connectivity on nearly every level, for every transaction.

We see channel connectivity evolving. And it's being driven by three factors. The convergence of information technology, input and output trait technology, and production technology, is driving the formation and organization of more coordinated supply chains and supply networks.

Entrepreneurs launch businesses like Pradium and Rooster.com because they listen to what people in the channel are saying. And then smart businesses people capitalize on those needs by creating new products, services and technologies. We have already invested millions of dollars in people and technologies that will connect the supply chain. So, as you can imagine, we are listening carefully to everything that everyone involved has to say.

Let's begin by reviewing what producers are saying. Their greatest challenge is crop marketing and profitability. I greatly admire the many producers who support their families and create profit in a business where they buy inputs at retail prices, and sell their products at wholesale.

The Freedom to Farm Bill gave producers more control over the crops and acreages they plant each spring. In return, subsidies were reduced, and market forces more directly determine the prices they receive. In an era of low crop prices, there is obviously much debate about the merits of this plan.

While those discussions are taking place, we think we have another solution. Connecting the supply chain in agriculture will expose more producers to more markets, with more transparency. As a result, corn growers in Indiana can make better decisions about the acreage they plant, and the price they expect to receive.

Producers are demanding that they share financially in the efficiencies created by e-commerce. E-business gives them more access to available markets, and direct participation in how their crops are priced.

Producers also need local crop marketing information. We enable producers to view grain bids online from local elevators. Technology enables producers to choose the elevators they want to do business with, and it presents the information according to the criteria that's most important to them.

The first advantage is immediate access to information. The second is efficiency. Eight phone calls and 30 minutes do not guarantee producers the best price. And an extra few pennies per bushel are pure profit.

The final point we hear from producers is that the great majority want local supplier involvement. The core piece of web learning from the consumer and business-to-business e-commerce worlds is clear – bricks and mortar (or in our case, galvanized steel and rivets) are the cornerstones of commerce. The buzzword for bypassing the existing distribution channel was disintermediation -- and disintermediation is dead.

Now, what are retailers and elevators saying about e-business? They expect to be included in e-commerce. At the same time, maintaining brand identification online is crucial.

They also want processors involved in an e-commerce marketplace. And, more broadly, they want greater connectivity to the supply chain. For retailers, a critical element is the ability to accurately identify and trace grain through the channel.

The message that comes across most strongly, is that not having an e-commerce strategy is a greater risk to them than Internet price comparisons by producers. Retailers and elevators also recognize that they need help getting started down the road to e-business.

What are processors and exporters saying? First, they need to maximize their full capacity. Secondly, they see a downside risk in handling biotech grain. They are also demanding traceability for each truck- or barge-load of grain they handle. On the positive side, they also see opportunity in value-added and identity-preserved crops. Overseas buyers pay a premium for organic or clear-hilum soybeans. Fortunately, both issues have the same solution.

From a broad view, e-business must offer advantages to every profit center in the chain. If, at any point along the way, a participant does not participate in the payoff, the whole value proposition is at risk.

The first point of contact in e-business is the local community. Greater connectivity means that Kenny West of Knox County, Illinois, has customers in mainland China. The extra profit from those grain sales results in more profitable sales for the local seed dealer. It means equipment upgrades from the local implement dealer. These dollars create more opportunities for local professional to help that grower manage his or her business and finances.

Local elevators handle the grain and facilitate the transactions. The payoff to them is higher margins and better utilization of assets. More, higher-skilled jobs emerge to help the producer and elevator capture more value for every bushel of grain.

Online transactions also reduce paperwork and manual processes. Documents flow through the supply chain without chalkboards, notepads, phones, clocks or time zone concerns. Gone will be faxing, rekeying, calculation errors and time delays. Employees are freed to concentrate on higher-value activities.

E-business offers grain traders market transparency, price discovery, liquidity and trading decision support. Internet connectivity brings traders together with banks, freight suppliers, exporters, end users and futures markets. Small traders benefit as much as, or more than, large traders.

The core value of supply chain connectivity is more access by all to more information. The benefit is communication among parties that didn't communicate before.

The payoff is increased competitiveness as a nation in a world economy. E-business creates market efficiencies that make U.S. agriculture a more reliable supplier at a competitive price.

The reason that I am here today is to ask for USDA support. The entire industry will be stronger for it. We need automated weights and measures, and online warehouse receipts. These crucial steps in the process guarantee standards and enable everyone to buy and sell without reservation. Adding connectivity to this process facilitates the market speed necessary for a competitive advantage in world markets.

Now, I'd like to offer detail and perspective about the role of Rooster.com and Pradium in the marketplace vision I've just communicated.

Both companies operate as independent entities that provide powerful, integrated offerings to the input and output sectors of agriculture. Pradium and Rooster.com are inclusive of, and connect, the entire supply chain – manufacturers, distributors, retailers, producers, elevators, traders, freight companies, processors and end users. The two companies supply the technology that more efficiently connects the entire marketplace. As independent companies, we host open, neutral marketplaces that are open to all participants. One of the most compelling reasons for the proposed merger is the development of a common technology platform for both first- and second-handle grain transactions.

Prior to the merger announcement, each company had targeted a significant segment of the supply chain in agriculture. However, the founders of Rooster.com and Pradium soon discovered that we can create incrementally more value for our customers if we link the entire agriculture industry. We will follow grain production from the initial seed, all the way to the Japanese processing plant.

In conclusion, I'd like to reinforce a few key points.

As a business leader, every thought that I've communicated today goes back to market efficiency. Connectivity is the cornerstone of efficiency that enables everyone to find a better price for what they're buying and selling. Equally important is information access, which enables everyone to react to the market more quickly. Finally, we feel very strongly that this value must also flow back to the producer.

E-business isn't the goal. It is the critical path that leads to efficient markets.

Agricultural Outlook Forum 2001

Presented: Thursday, February 22, 2001

RISK MANAGEMENT

Karen Hulebak, Chief Scientist
Office of Public Health and Science, Food Safety and Inspection Service
U.S. Department of Agriculture

Good afternoon. It's a pleasure to be here with you today to talk about the role of risk management in reducing foodborne illness and improving food safety.

The process of risk analysis, which consists of risk assessment, risk management, and risk communication, is playing an increasingly important role in establishing public policy for food safety within governments, both domestically and internationally. Risk management is the process of food safety regulators weighing alternatives in light of the results of risk assessment, the regulatory authority provided by domestic law(s), and other information, and selecting and implementing the appropriate control option(s), including new regulatory measures where appropriate.

The benefits of this approach to establishing public food safety policy are many. First, it strengthens the role of science in informing risk management decisions. Second, it allows risk managers to shift from what I characterize as the traditional shotgun approach to policy and regulation, to a more focused approach targeted at the most effective control measures. For example, if a risk assessment pinpoints particular products that may be more likely to cause foodborne illness, we can focus our strategy accordingly.

While the role of science has been recognized as important in managing food safety risks, we need to further strengthen the role it plays domestically and worldwide. For example, in 1997, all Federal agencies with food safety risk assessment responsibilities established the Interagency Risk Assessment Consortium. The Consortium is charged with advancing the science and effectiveness of microbial risk assessment by (1) encouraging joint research to develop predictive models and other tools that can be used to conduct risk assessments, and (2) filling data gaps in this area. A clearinghouse was also established to collect and catalogue resources on risk analysis.

Let me review for you the eight principles of food safety risk management, developed in 1997, by the Food and Agriculture Organization of the United Nations, in collaboration with the World Health Organization.

- 1) First, risk management should follow a structured approach, which includes risk evaluation, assessing risk management options, implementing management decisions, and monitoring to see if adjustments are needed.
- 2) Second, human health protection should be the primary consideration in risk management decisions. Decisions on acceptable risk levels should not be based upon arbitrary or unjustified differences in risk exposure.
- 3) Third, the rationale for risk management decisions should be transparent. All elements of the process, including decision-making, should be systematically identified and documented to ensure all interested stakeholders understand the decision rationale.

- 4) Fourth, risk managers should provide a risk assessment policy framework for risk assessors. Risk assessment policy, which sets the guidelines for value judgements and policy choices, may need to be applied at specific decision points during the risk assessment process. Such policy is preferably established in advance of risk assessment and in collaboration with risk assessors.
- 5) Fifth, risk assessment and risk management should remain functionally separate to ensure the scientific integrity of the risk assessment process. While interaction between risk managers and risk assessors is essential, these processes should remain separate to reduce any conflict of interest.
- 6) The sixth principle of food safety risk management is that decisions should take into account the numerical uncertainty expressed in the risk assessment. While risk assessments are scientifically-based, the full meaning of the results should be framed by the degree of uncertainty. Risk managers need to consider and understand the reasons and range of uncertainty.
- 7) The seventh principle is that risk management should include clear, interactive communication with consumers and other interested parties in all aspects of the process.
- 8) The last principle of food safety risk management is that it should be a continuous process, taking into account newly generated data and periodically reviewing risk management decisions. Technology and research continuously reveal new information, and we must understand that a decision based on the science of today, may need to be changed tomorrow as new information is revealed.

HACCP as a Risk Management Strategy

The Hazard Analysis and Critical Control Point (HACCP) system approach implemented by meat and poultry establishments in the U.S. is a good example of a risk management strategy. It also helps to illustrate the importance of the eighth principle of food safety risk management – that is risk management should be a continuous process. HACCP is a science-based process control system used by meat and poultry establishments to prevent, eliminate, or reduce to acceptable levels, the significant food safety hazards that may arise in particular processes and products.

HACCP systems are designed to evolve with science, and as science reveals new information regarding food safety hazards, industry HACCP plans must be reviewed and revised accordingly. Additionally, our regulations require meat and poultry establishments to reassess their HACCP plans at least annually, and whenever any changes occur that could affect the hazard analysis that forms the basis for the HACCP plans in particular establishments.

For example, if new data revealed that a pathogen was more prevalent than previously thought, establishments would be required to reassess their hazard analyses to determine if that pathogen is a hazard reasonably likely to occur in their operation. If it is reasonably likely to occur, then it must be addressed in the HACCP plan.

Risk-Based Inspection

Now that HACCP has been implemented nationwide in meat and poultry establishments, we are interested in taking the next step of applying a risk-based approach to the allocation of inspection resources within meat and poultry processing establishments, to the extent possible under the law. For example, under the current approach all processing establishments are assumed to have an equal need for inspection. FSIS is exploring, with the Research Triangle Institute and Texas A&M University, the development of a new approach that will facilitate a more risk-based allocation of inspection personnel to processing establishments, potentially resulting in more inspection in some and less in others.

Under such a risk-based approach, the need for inspection could be based on a systematic evaluation of the relative risks presented by each establishment based on such factors as: 1) the type of raw materials and product produced, 2) the processes used to produce it, 3) the volume of product, and 4) the compliance history of the establishment.

By more effectively factoring hazard and risk considerations into the current inspection approach, the Agency can more effectively execute its inspection responsibilities, further assure the safety of meat and poultry products, and efficiently use its limited inspection resources. FSIS plans to have a public meeting on this approach later this year, and will evaluate input received at the meeting to decide how best to proceed.

Farm-to-Table Approach

While FSIS efforts have historically focused on the inspection of meat and poultry slaughter and processing establishments, the Agency's public health mandate requires that pre- and post- processing hazards also be considered as part of a comprehensive strategy to further reduce foodborne risks. To complement HACCP and the risk management strategies taken within those establishments, we are working with all interested parties to develop and encourage farm-to-table steps to improve food safety. It is important to emphasize that mandatory regulations are not the only risk management tools available to managers. Research, education, and voluntary efforts on the part of industry are important as well.

The Agency's recently completed risk assessment for *Salmonella enteriditis* in eggs is an example of a coordinated, farm-to-table approach. For the risk assessment, effects of pathogen growth were modeled at various points throughout the farm-to-table chain and results revealed specific points where intervention strategies should be focused. Depending on the point along the farm-to-table continuum where an intervention strategy was suggested, the best entity to initiate and implement a strategy may be a federal agency, state and local agency, and/or industry itself. Obviously, industry would be an integral part of any strategy.

The Egg Safety Action Plan announced in December 1999, which was developed in response to the Risk Assessment on *Salmonella enteritidis* in eggs, further illustrates the benefits of a farm-to-table strategy and coordination among various stakeholders. The action plan was developed jointly by six federal agencies – FSIS, Animal and Plant Health Inspection Service, Agriculture Marketing Service, Agriculture Research Service, the Food and Drug Administration, and the Centers for Disease Control and Prevention. The plan identified intervention strategies from production to consumption to reduce, and ultimately eliminate eggs as a source of SE illnesses.

We all have a responsibility for improving food safety, and we all need to work together to reduce human foodborne illness. In doing so, we can work toward a goal of creating a seamless food safety system, with improved coordination among all segments of the farm-to-table chain.

International Implications

In working towards this goal, we must also coordinate with our international food safety partners. Risk assessments play an important role in international trade by ensuring that countries establish food safety requirements that are scientifically sound and by providing a means for determining equivalent levels of public health protection between countries. Without a systematic assessment of risk, countries may set import requirements that are not related to food safety, and could create artificial barriers to trade.

Recognizing the importance of this science-based approach to food safety and fair trade, the World Trade Organization requires each country's food safety measures to be based on risk assessment. And the Codex Alimentarius Commission has drafted principles for risk analysis. In April 2001, the Codex Committee on General Principles will meet in Paris, France to discuss them. These principles being developed by Codex will encourage all countries to incorporate risk analysis into their future food safety decisions.

Closing

In closing, we're off to a good start in integrating risk analysis into our food safety policy making process here in the U.S., but we still have work ahead of us to more fully integrate this concept. Investments involved in furthering the science of risk analysis and applying it effectively to foods will be well worth the returns in terms of providing a safer food supply for the American public, and consumers around the world.

